Yukon Development Corporation
2013 Annual Report

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Chair's Message

Yukon Development Corporation (YDC) initiated several important policy and financial undertakings in 2013. YDC completed the Na-Cho Nyak Dun Investment Trust Agreement that enables investment by the NND Investment Trust in Yukon Energy Corporation's Mayo B hydroelectric project. In addition, the corporation approved a term sheet that will guide possible investment by First Nations in our subsidiary's diesel/natural gas conversion project at its Whitehorse Thermal Generation Station.

As Yukon First Nations will continue to be important contributors to Yukon's energy future, YDC initiated work on an Investment Framework which is intended to provide a consistent policy based approach to First Nation investment in YDC/YEC energy projects.

YDC also initiated a Governance Review to examine how to improve the strategic relationship it has with its subsidiary, Yukon Energy Corporation. Work will continue in 2014 focused on recommendations YDC provides to its Minister concerning governance and the Investment Framework.

Most notably, on November 22, 2013, YDC was provided with Order in Council (OIC) 2013/201. Entitled the Hydroelectric Power Planning Directive, the OIC directs YDC to "plan one or more hydroelectric projects". Implementing the directive will be YDC's priority going forward. It is attached for the reader's reference.

Joanne Fairlie, Chair
Board of Directors
Yukon Development Corporation

Message from the Chief Executive Officer

Yukon Development Corporation's (YDC) 2013 annual report was prepared under the Board's direction and represents a balanced and accurate summary of the corporation's performance for the calendar and fiscal year ended December 31, 2013.

2013 was the fourth full year of the Yukon government's Interim Electrical Rebate (IER) program, a program aimed at assisting residential electricity customers with their power bills. The Yukon government provided more than $3.3 million to Yukoners through this program in 2013, with the money flowing through Yukon Development Corporation. Yukon Development Corporation also flowed $12 million in construction financing to its subsidiary, Yukon Energy Corporation (YEC).

YDC will address several priorities in 2014 key among which as the Chair noted, will be implementation of O.I.C. 2013/201. Additional priorities will include long term financing for YEC's diesel/natural gas conversion project, a review and update of the Corporation's By-laws, and a new Protocol between YDC and the Yukon government.

Greg Komaromi, President and Chief Executive Officer
Yukon Development Corporation

HYDROELECTRIC POWER PLANNING DIRECTIVE

Corporation to plan Project

1.(1) The Yukon Development Corporation is directed to plan one or more hydroelectric projects (referred to in this Directive as the "Project") as further described in this Directive.

(2) The goal of the Project is to ensure, together with supporting renewable and, to the minimum extent feasible, non-renewable sources of electrical power, an adequate and affordable supply of reliable and sustainable electrical power in Yukon.

(3) In planning the Project the corporation must

(a) evaluate the expected growth in residential, commercial, and industrial demand for electrical power in Yukon;

(b) plan for scalability, so as to allow for the increase of energy supply over time to meet that projected demand growth;

(c) assess the Project's financial needs and risks, and evaluate options for Project financing and financial risk mitigation;

(d) determine the anticipated positive and negative socio-economic and environmental effects of the Project, and develop specific means of maximizing its benefits, minimizing its adverse effects and mitigating any unavoidable negative impacts;

(e) in respect of the effects referred to in paragraph (d), have particular regard to the impacts on, and opportunities for, the First Nation or First Nations in whose traditional territory the Project may be located;

(f) engage with First Nations to explore options for Project location as well as opportunities for partnership in Project planning and execution; and

(g) consider one or more specific possible locations for the Project, taking into consideration the above criteria as well as

DIRECTIVE PORTANT SUR LA PLANIFICATION DE LA PRODUCTION DE L'ÉNERGIE HYDROÉLECTRIQUE

Planification d'un projet par la Société

1.(1) Il est ordonné à la Société de développement du Yukon de procéder à la planification de projets hydroélectriques (ci-après appelés le « projet »), tels que décrits dans la présente directive.

(2) Le projet a pour objet d'assurer au Yukon un approvisionnement adéquat et abordable en énergie électrique fiable et durable, de même que des sources d'énergie électrique renouvelables et, si elles sont non renouvelables, que dans la mesure minimale nécessaire.

(3) Lors de la planification du projet, la Société doit :

a) évaluer la croissance projetée de la demande pour l'énergie électrique au Yukon dans les secteurs résidentiel, commercial et industriel;

b) planifier pour la variabilité d'échelle de manière à permettre une augmentation de l'approvisionnement en énergie au fil du temps et répondre ainsi à la croissance projetée de la demande;

c) évaluer les besoins et les risques financiers, ainsi que les possibilités pour le financement du projet et l'atténuation des risques financiers;

d) déterminer les effets socioéconomiques et environnementaux prévus du projet, tant positifs que négatifs, et développer des moyens concrets pour optimiser leurs avantages, réduire leurs effets indésirables et atténuer les impacts négatifs inévitables;

e) quant aux effets mentionnés à l'alinéa d), tenir compte en particulier des impacts sur les Premières nations lorsque le projet est situé sur leur territoire traditionnel et des possibilités qui leur sont offertes;

f) collaborer avec les Premières nations pour évaluer les options portant sur l'emplacement du projet ainsi que des possibilités de partenariat pour la planification et l'exécution d'un projet;

g) examiner un ou plusieurs emplacements possibles pour le projet, en tenant compte des

proximity to the existing and expected future customer base.

(4) The corporation must deliver its plan for the Project as a written report to the Minister at a date to be agreed upon by the Minister and the corporation, and include as a component of that report the business case for the Project.

Planning resources and communication

2. Within 90 days after the date of this Directive, the corporation must submit to the Minister a written work plan for the planning of the Project, including

(a) a description of the financial, human and other resources that the corporation expects to require in order to execute this Directive;

(b) a schedule of planning stages and, if the Minister and the corporation agree, interim deliverables, including a proposed date for the submission of the written report, to be amended as required; and

(c) plans for communication between the corporation and the Minister and communication with the public.

Minister may change deadlines

3. The Minister may extend or waive any time limit described in this Directive.

critères ci-dessus, ainsi que de la proximité de la clientèle actuelle et à venir.

(4) La Société doit remettre au ministre son plan du projet consigné dans un rapport écrit à une date convenue par le ministre et la Société. L'analyse de rentabilité du projet est un élément faisant partie du rapport écrit.

Planifications des ressources et des communications

2. La Société doit remettre au ministre, dans les 90 jours suivant la date de la présente directive, un plan de travail écrit portant sur la planification du projet, notamment :

a) une description des ressources financières, humaines et autres que la Société prévoit avoir besoin pour réaliser la présente directive;

b) un calendrier des diverses étapes de la planification qui peut être modifié au besoin et, si le ministre et la Société s'entendent, des éléments livrables de projet par intérim, notamment une date suggérée pour la remise du rapport écrit;

c) des plans pour la communication entre la Société et le ministre ainsi qu'avec le public.

Le ministre peut modifier les délais

3. Le ministre peut renoncer à tout délai décrit dans la présente directive ou le prolonger.

Organizational Overview

Yukon Development Corporation (YDC) is a Crown corporation created in 1986 by the *Yukon Development Corporation Act.* We are governed by a Board of Directors appointed by the Yukon government and have a legislative mandate to participate with the private sector in the economic development of Yukon. In particular, the Act mandates the corporation to:

- Develop and promote the development of Yukon resources on an economic and efficient basis;
- Promote employment and business opportunities for territorial residents;
- Assure a continuing and adequate supply of energy in a manner consistent with sustainable development; and
- Implement development policy directives issued to it by the Yukon Cabinet.

Order-in-Council 1993/07 restricted the corporation's role to energy-related activities designed to promote the economic development of Yukon, and to:

- Assure a continuing and adequate supply of energy;
- Alleviate the effects of any energy shortage that may occur; and
- Promote the establishment, development and operation within Yukon of industries or undertakings that are by their nature energy-dependent through the provision of cost-effective energy or energy-related infrastructure.

Board of Directors

Joanne Fairlie (Chair)
John Wierda
Dan Reams
Michael Lauer
Paul Birckel
Jackie Bazett
Warren Holland
Collin Young

Board of Directors' Appointments

The Board of the Yukon Development Corporation is appointed by the Yukon government.

YDC Audit Committee

Collin Young (Chair)
Joanne Fairlie
John Wierda
Dan Reams

Senior Management and Officers

Greg Komaromi, President and Chief Executive Officer

Lisa Jarvis, Corporate Secretary

Blaine Anderson, Chief Financial Officer

Yukon Development Corporation

Consolidated Financial Statements

December 31, 2013

Yukon Development Corporation

Consolidated Financial Statements

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Yukon Development Corporation

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Yukon Development Corporation are the responsibility of management, and have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgement. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an independent external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and the transactions coming to their notice have, in all significant respects, been in accordance with specified authorities. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The Corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Finance Committee, with and without the presence of management.

Greg Komaromi
Chief Executive Officer

Blaine Anderson, C.A.
Chief Financial Officer

Whitehorse, Yukon
May 16, 2014

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Yukon Development Corporation

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Yukon Development Corporation, which comprise the consolidated balance sheet as at 31 December 2013, and the consolidated statement of operations, comprehensive income and retained earnings and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Yukon Development Corporation as at 31 December 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Yukon Development Corporation Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Yukon Development Corporation and its wholly-owned subsidiary and the consolidated financial statements are in agreement therewith. In addition, the transactions of the Yukon Development Corporation and its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* of Yukon and regulations, the *Yukon Development Corporation Act* and regulations, the *Public Utilities Act* and regulations, the *Business Corporations Act* and regulations and the articles and by-laws of the Yukon Development Corporation and its wholly-owned subsidiary.

Terrance DeJong, CA
Assistant Auditor General
for the Auditor General of Canada

16 May 2014
Edmonton, Canada

Yukon Development Corporation

Consolidated Balance Sheet

As at December 31, (in thousands of dollars)	2013	2012
Assets		
Current assets		
Cash (note 5)	$ 8,858	$ 9,690
Accounts receivable (note 6)	8,281	12,504
Materials and supplies	3,223	2,791
Prepaid expenses	672	553
Derivative related asset (note 26)	120	-
	21,154	25,538
Direct financing leases (note 7)	162	162
Property, plant and equipment (note 8)	399,739	382,817
Deferred uninsured losses (note 9)	330	152
Deferred charges and intangible assets (note 10)	24,760	27,279
	$ 446,145	$ 435,948
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	$ 12,337	$ 16,730
Derivative related liability (note 26)	-	666
Current portion of long-term debt (note 17)	4,521	4,260
	16,858	21,656
Long-term construction financing (note 12)	12,000	-
Long-term pension liability (note 22)	1,160	1,047
Future removal and site restoration costs (note 13)	7,224	7,233
Contributions in aid of construction (note 14)	107,618	110,096
Regulatory hearing reserve (note 15)	106	-
Diesel contingency fund (note 16)	8,198	4,628
Long-term debt (note 17)	123,510	127,870
	276,674	272,530
Equity		
Contributed capital	41,501	41,501
Retained earnings	127,970	121,917
	169,471	163,418
	$ 446,145	$ 435,948

Commitments and Contingencies (notes 23 and 24)
The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Chair

Director

Yukon Development Corporation

Consolidated Statement of Operations, Comprehensive Income and Retained Earnings

For the year ended December 31, (in thousands of dollars)	**2013**	2012
Revenue		
Sales of power (note 18)	$ 38,571	$ 36,508
Government of Yukon (note 1)	6,065	5,727
Allowance for funds used during construction	923	798
Amortization of capital assistance from Government of Yukon	377	323
Other income	280	306
Interest income	-	64
	46,216	43,726
Expenses		
Administration (note 19)	10,706	11,156
Operations and maintenance (note 20)	9,983	9,646
Amortization of property, plant and equipment	6,298	5,868
Interest on long-term debt	6,188	6,047
Amortization of deferred charges	2,689	2,717
Amortization of intangible assets	1,813	648
Provision for uninsured losses (note 9)	226	226
	37,903	36,308
Net income before other items	**8,313**	7,418
Interim electrical rebate program (note 1)	**(3,046)**	(2,993)
Unrealized gain on interest rate swaps (note 26)	**786**	158
Net income	**6,053**	4,583
Other comprehensive income	-	-
Comprehensive income	**6,053**	4,583
Retained earnings, beginning of year	**121,917**	117,334
Retained earnings, end of year	$ **127,970**	$ 121,917

The accompanying notes are an integral part of the financial statements.

Yukon Development Corporation

Consolidated Statement of Cash Flows

For the year ended December 31, (in thousands of dollars)	2013	2012
Operating activities		
Cash receipts from customers	$ 50,579	$ 43,188
Cash paid to employees and suppliers	(26,201)	(24,308)
Interest paid	(6,219)	(6,047)
Interest received	-	64
Cash provided by operating activities	**18,159**	12,897
Financing activities		
Repayment of long-term debt	(16,099)	(3,785)
Proceeds from long-term debt	-	11,000
Proceeds from construction financing	24,000	-
Contributions in aid of construction	2,469	24,284
Cash provided by financing activities	**10,370**	31,499
Investing activities		
Additions to property, plant and equipment	(27,847)	(34,277)
Additions to deferred charges and intangible assets	(1,514)	(4,972)
Cash used in investing activities	**(29,361)**	(39,249)
Net (decrease) increase in cash	**(832)**	5,147
Cash, beginning of year	**9,690**	4,543
Cash, end of year	**$ 8,858**	$ 9,690

The accompanying notes are an integral part of the financial statements.

1. Nature of operations

Yukon Development Corporation (the "Corporation") was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission in the Yukon. In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly-owned subsidiary, Yukon Energy Corporation (the "Utility") was incorporated under the Yukon *Business Corporations Act*. The Utility generates, transmits, distributes and sells electrical energy in the Yukon and is subject to overall regulation by the Yukon Utilities Board (YUB) and specific regulation by the Yukon Territory Water Board. Both of these boards are independent from the Utility. The Utility is also exempt from the Financial Administration Act (Yukon).

Rate regulation

The operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act (Yukon)*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment or rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility files a General Rate Application (GRA) for its proposed electricity rate changes over the next one or two forecast years (note 4). The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are reviewed and approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of the rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of the rate base which is financed with equity).

The YUB assesses the prudency of costs added to rate base, which includes an allowance for funds used during construction (AFUDC) charged to capital projects. The YUB also reviews the appropriateness of asset depreciation rates, which are periodically updated by the Utility through depreciation studies.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in Council 1995/90 and can include a cost-of-service study which allocates the overall Utility's cost of service to the various customer classes on the basis of appropriate costing principles.

1. Nature of operations - continued

Water regulation
The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital structure
The Utility's policy which has been approved by the YUB is to maintain a capital structure of 60% debt and 40% equity at year end (note 27). Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

Government of Yukon
In June 2013, the Yukon Government authorized the continuation of the Interim Electrical Rebate program (the "rebate") for 12 months at current levels, to March 31, 2014. The rebate provides subsidies to non-government residential and municipal customers. It was implemented in 1998 after the Faro mine closed to protect customers from significant bill increases that would have resulted from that shutdown. The Yukon Government is providing funding for the rebate to a maximum of $3.35 million per fiscal year. In 2013, the Corporation received $3.44 million (2012 - $3.102 million) in funding for the program. The total subsidy payments made by the Corporation during the current year were $3.046 million (2012 - $2.993 million).

The Corporation and the Government of Yukon signed a Memorandum of Understanding for the accounting period starting April 1, 2011 to March 31, 2042 regarding the Mayo B and Carmacks-Stewart Transmission line projects. The Government of Yukon will assist in funding the repayment of a portion of the bond interest costs of up to $2.625 million annually, subject to the Corporation meeting specified terms set out in the agreement.

2. Accounting changes

Future accounting changes
In February 2013, the Canadian Accounting Standards Board extended its existing deferral of the mandatory changeover to International Reporting Standards ("IFRS") for entities with rate regulated activities to January 1, 2015. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The International Accounting Standards Board (IASB) issued an interim standard for regulatory deferral accounts during the first quarter of 2014. The interim standard allows first time adopters to use the interim rate regulated standard until such time as the IASB completes its comprehensive project on rate regulation. The Corporation may be required to prepare its financial statements in accordance with IFRS for its fiscal year ending December 31, 2015. The IFRS statements, if prepared, will have comparative financial information and an opening statement of financial position beginning as of January 1, 2014. The effect of rate regulation must be presented separately from other items under this interim standard.

3. Significant accounting policies

Financial statement presentation
The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of Yukon Development Corporation and its wholly owned subsidiary, Yukon Energy Corporation. All significant inter-company transactions and balances have been eliminated on consolidation.

3. Significant accounting policies - continued

The consolidated financial statements reflect the rate regulated accounting policies adopted by the Utility which differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise.

The impact on the consolidated financial statements of accounting for rate regulated operations are further described in note 4. The significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies adopted by the Utility

Allowance for funds used during construction
The cost of the Utility's property, plant and equipment and deferred charges includes an allowance for funds used during construction (AFUDC) as allowed by the regulator. The calculation of the estimate is based on the Utility's weighted average cost of debt. The AFUDC rate estimate was 4.00% for 2013 (2012 - 4.24%).

Property, plant and equipment
The gain or loss on the disposal or retirement of property, plant and equipment, with the exception of land and vehicles, is deferred and amortized over the remaining expected useful lives of the assets.

Deferred uninsured losses
The Utility maintains a regulatory account for recording uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following GRA or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges
Deferred charges are recorded at cost and include an AFUDC component as allowed by the YUB.

All deferred charges are amortized to earnings on a straight-line basis over terms approved by the YUB.

Cost of feasibility studies and infrastructure planning which did not result in a capital project are amortized over terms ranging between five and ten years.

IFRS costs are associated with the accounting conversion from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards.

Deferred customer service costs are amortized over twelve years.

The deferred hearing cost account is used to record the deferral of costs associated with preparation and defense of applications to the YUB. The periods of amortization range from 10 to 45 years.

Regulatory provision for future removal and site restoration costs
The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. The provision includes a regulatory component as well as a component relating to the future decommissioning of the Minto Mine spur line. Per YUB Order 2005-12 no additional provision is permitted to the regulatory component.

3. Significant accounting policies - continued

The provision for the decommissioning of the Minto Mine spur line accrues interest at the rate equal to the three month Canadian Dealer Offered Rate (CDOR). This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

Deferred insurance proceeds
Deferred insurance proceeds represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The proceeds are being amortized to income on the same basis as the replacement assets.

Diesel contingency fund
The Diesel Contingency Fund (DCF) was established by YUB Order 1996-6 through the Negotiated settlement process. The DCF is used to reimburse the Utility for costs associated with the diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The DCF attracts interest based upon short-term bond rates. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. The Utility is required to file an annual report with the YUB on the DCF's activity. The DCF policy is under review by the YUB. See Note 4 for further explanation.

Regulatory hearing reserve
The Utility established a new deferral account for regulatory hearing costs which was approved by the YUB as part of the 2012-2013 GRA. The annual provision is collected through customer rates. Variances between the annual provision and actual costs incurred are deferred until the following GRA or until a specific application is made to the YUB requesting recovery from or refund to customers.

Generally Accepted Accounting Principles ("GAAP") adopted by the Corporation and Utility

Revenue recognition
All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies
Diesel fuel, materials and supplies are recorded at the lesser of average cost and net realizable value. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined. Major spare parts are recorded in the Utility's books as property and equipment.

Property, plant and equipment
Property, plant and equipment is stated at cost, other than the AFUDC component which is recorded under rate regulated accounting. Cost includes materials, direct labour, a proportionate share of directly attributable administration overhead, and, if applicable, direct finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 103 years
Diesel plants	12 to 72 years
Wind turbines	30 years
Transmission	20 to 65 years
Distribution	12 to 55 years
Buildings	20 to 55 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

3. **Significant accounting policies - continued**

Property, plant and equipment - continued
The estimated service lives and removal costs of the assets is based upon depreciation studies conducted periodically by the Utility.

Asset retirement obligations
On an annual basis the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Direct financing leases
Investments in direct finance leases are carried at the lower of cost and net realizable value.

Contributions in aid of construction
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or government. These contributions are deferred upon receipt and are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers and the Government of Canada is netted on the statement of operations against amortization expense while amortization of capital assistance from the Yukon Government is disclosed separately under Amortization of contributions from the Government of Yukon.

Deferred licensing costs
Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years. Diesel generation air emission permits have a term of three years. These costs are treated as intangible assets and are measured at initial cost and amortized over the life of the license.

Employee pension plan
The Utility sponsors an employee defined benefit pension plan which provides benefits based on the length of service and average salaries for the five highest paid consecutive years of service. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined pension plan. Effective January 1, 2011, the Utility also sponsors an executive defined benefit pension plan and supplemental executive retirement plan. The Utility contributes amounts to the pension plans as recommended by an independent actuary.

The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Pension costs include the adjustments resulting from plan enhancements, actuarial gains and losses, and changes in assumptions which are amortized over the expected average remaining service period of active employees. The excess of the net unrecognized actuarial gains and losses over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized on a straight line basis over the expected average remaining service period of active employees, which is currently 8 years for the employee plan (2012 - 8 years) and 3 years for the executive plan (2012 - 4 years). The transitional asset (liability) arising when these policies are first applied is amortized over the average remaining service period of active employees when the amendment is recognized, which is 18 years for the employee plan and 5 years for the executive plan. The expected return on plan assets is based on the fair value of these assets.

3. Significant accounting policies - continued

Financial instruments
Financial assets and financial liabilities are recognized on the Corporation's balance sheet when the Corporation becomes party to the contractual provisions of the instrument.

Cash
Cash is comprised of cash on hand and in bank accounts.

Accounts receivable
Accounts receivable, classified as loans and receivables, are initially measured at fair value. Subsequent to initial recognition, accounts receivable are measured at amortized cost using the effective interest method less any impairment.

Accounts payable and accrued liabilities
Accounts payable and accrued liabilities, classified as other financial liabilities, are measured at amortized cost using the effective interest method.

Construction financing and Long-term debt
Construction financing and long-term debt, classified as other financial liabilities, are initially recognized at fair value. Subsequent to initial recognition, construction financing and long-term debt are measured at amortized cost using the effective interest method.

Transaction costs
Transaction costs are presented as a reduction from the carrying value of the related debt and are amortized using the effective interest rate method over the terms of the debts to which they relate. Transaction costs include fees paid to agents, brokers and advisors but exclude debt discounts and direct financing costs.

Derivative financial instruments
Derivative financial instruments are financial contracts that derive their value from changes in an underlying variable. The Corporation has entered into interest rate swaps to manage interest rate risk. The Corporation's interest rate swaps are designated as held for trading and are thus recognized at fair value on the date the contract has been entered into with any subsequent unrealized gains and losses reported in net income during the period in which the fair value movement occurred.

Fair value estimation
The carrying value of the cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities. The fair value of derivative financial instruments is estimated using standard market valuation techniques and is provided to the Corporation by the financial institution that is the counterparty to the transactions.

Environmental liabilities
Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a liability and record an expense, related to present or past activities of the Utility, when there is a legal obligation to remediate the contamination and the costs can be reasonably estimated. If the likelihood of the Utility's obligation to incur these costs is either not determinable or the costs cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. The Corporation reviews its estimates of future environmental liabilities on an ongoing basis as described in note 25.

3. **Significant accounting policies - continued**

Measurement uncertainty

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include those for revenue, accounts receivable, property, plant and equipment, asset retirement obligations, employee pension obligations and rate regulated assets and liabilities. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the YUB as described in note 4.

4. **Financial statement effects of rate regulation**

General Rate Application

In April 2012, the Utility filed a GRA for the years 2012 and 2013 requesting rate increases of 6.4% and 6.5% respectively. After two rounds of interrogatories, an oral public hearing was held in November of 2012. On June 24, 2013, the YUB approved on-going rate riders of 11.01% for non-industrial customers and 7.36% for industrial firms to reflect the cumulative rate increases for 2012 and 2013. In addition, a one year rider of 3.62% was approved to collect the remaining approved net revenue shortfall for 2012 and 2013.

These financial statements reflect the approved rate increase for 2012 and 2013 and all other directives issued by the YUB which affected the Utility's financial statements for 2012 and 2013, including the directive issued regarding the DCF and the Energy Reconciliation Adjustment (ERA) (see below).

Diesel Contingency Fund and Energy Reconciliation Adjustment

As part of the 2012/13 GRA, the Utility filed for changes to the DCF and ERA provisions of the Wholesale Primary rate schedule. The YUB deferred a decision on these two issues pending further consultation with affected utilities and a separate proceeding to review the impacts of proposed changes. In January 2014, the Utility filed an application to revise the DCF and ERA with the YUB. In accordance with the YUB's directive as part of the 2012/13 GRA, the Utility has deferred the recognition of the additional amounts collected from rate payers under the proposed DCF policy (note 16) and the additional revenues under the proposed ERA (note 6 & 11) pending the final resolution of these two matters. The amounts for the DCF and the ERA are subject to measurement uncertainty and could change significantly based on the decisions of the YUB.

Regulatory accounts

Certain items in these consolidated financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in income in the period that the YUB renders a subsequent decision. Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

4. Financial statement effects of rate regulation - continued

In the absence of rate regulation the Utility's net income would have increased by $4,240,000 in 2013 (2012 - increased by $585,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2013	2012	Expected remaining recovery/ settlement (years)	For 2013 In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets				
Deferred charges (note 10), net book value				
Feasibility studies and infrastructure planning	$ 16,481	$ 17,313	5 to 10	$ 832
Deferred customer service costs	443	507	12	64
Hearing costs	2,722	2,950	10 to 45	228
Dam safety review	48	72	5	24
IFRS planning	340	468	Indeterminate	128
Deferred uninsured losses (note 9)	330	152	Indeterminate	(178)
Deferred overhauls	3,600	973	Indeterminate	(229)
	23,964	22,435		869
Regulatory liabilities:				
Deferred insurance proceeds (note 14)	6,015	6,276	25	(261)
Future removal and site restoration costs (note 13)	4,671	4,711	Indeterminate	(40)
Hearing reserve (note 15)	106		Indeterminate	106
Diesel contingency fund (note 16)	8,198	4,628	Indeterminate	3,570
	18,990	15,615		3,375
Net impact of assets and liabilities	$ 4,974	$ 6,820		$ 4,244
Impact of other items through income statement				
Fuel Price Adjustment				(4)
Total effect				4,240

Regulatory assets

(a) Deferred charges

Deferred charges represent incurred costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies and infrastructure planning

The Utility undertakes certain projects whose objective is to determine the feasibility of a range of solutions. While in progress, the costs of these feasibility projects are included in these accounts. As well, if the feasibility project determines there is not a viable solution, these projects are closed out and amortized to income over a prescribed number of years. The cost of feasibility projects that result in a capital project are transferred to the cost of the resultant project. In the absence of rate regulation, expenses in 2013 would have been $832,000 lower (2012 - $2,429,000 higher expenses).

4. Financial statement effects of rate regulation - continued

Deferred Customer Service Costs
These are costs associated with negotiating terms of service with a new industrial customer in 2008. In the absence of rate regulation, expenses in 2013 would have been $64,000 lower (2012 - $64,000 lower expenses).

Hearing costs
These costs are associated with the YUB regulatory proceedings. The costs consist primarily of various rate and project review proceedings. The Utility is directed to defer and amortize the costs over terms at the discretion of the YUB. In the absence of rate regulation, expenses in 2013 would have been $228,000 lower (2012 - $574,000 higher expenses).

Dam safety review
The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB 2009-8. In the absence of rate regulation, expenses in 2013 would have been $24,000 lower (2012 - $23,000 lower expenses).

IFRS planning
These costs are associated with the accounting conversion from Canadian GAAP to IFRS. In the absence of rate regulation, expenses in 2013 would have been $128,000 lower (2012 - $98,000 lower expenses).

(b) Deferred uninsured losses
The YUB has approved the use of a deferral account for uninsured damages and injuries as a means of self-insurance. The account is maintained through an annual provision approved the YUB. In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to transfer the balance of $397,000 in the Faro mine dewatering deferral revenue account a at January 1, 2012 to Deferred uninsured losses and to amortize the remaining negative balance in the account of $180,000 over a five-year period. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of $190,000 in 2012 and each subsequent year. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2013 would have been higher by $178,000 (2012 - $26,000 lower expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(c) Deferred overhauls
Overhauls represent costs incurred to overhaul engines that are in operations. The Utility was directed by the YUB Order 2013-01 to defer all overhead costs incurred after 2011 in work in progress until the Utility comes before the Board for a prudence review and the costs are approved to be capitalized. GAAP would require that major overhauls that extend the life of the asset to be capitalized and amortized over the remaining useful life of the asset while all other overhauls are expensed in the year incurred. Total deferred overhaul costs were $3,600,000 (2012 - $973,000). In the absence of rate regulation, amortization expense in 2013 would have been $229,000 higher (2012 - $0 higher).

4. Financial statement effects of rate regulation - continued

Regulatory liabilities

(d) Deferred insurance proceeds
The deferred insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, in the absence of rate regulation, the Utility's net income in 2013 would have been lower by the amount of the amortization of $261,000 (2012 - $270,000 lower).

(e) Future removal and site restoration costs
Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1, 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations.

The provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000.

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2013 expenses would have been higher by the amount of actual removal and site restoration costs incurred in the year of $40,000 (2012 expenses - $0 higher). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

(f) Regulatory hearing reserve
Pursuant to YUB Order 2013-01 the Utility has established a new deferral account for future regulatory hearing costs. Included in the GRA is $550,000 related to estimated hearing costs each year. Actual hearing costs will be applied to this regulatory deferral account. In a non-regulated industry, hearing costs would be expensed in the year incurred. In the absence of rate regulation, the Utility's 2013 expense would have been $106,000 lower (2012 - $0).

(g) Diesel contingency fund
Under GAAP any amounts earned or incurred related to the DCF would be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's net income for 2013 would have been higher by $3,570,000 (2012 - $3,726,000 higher).

(h) Fuel price adjustment
OIC 1998/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period.

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating results of the year that they are incurred. In 2013, fuel expenses were recovered and consequently higher by $4,000 (2012 fuel expense higher by $80,000).

4. Financial statement effects of rate regulation - continued

Other items affected by rate regulation

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB in assessing the amount the Utility is entitled to as a return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the YUB which could result in material adjustments to these assets and liabilities.

5. Cash

The cash balance includes an amount of $1,292,000 (2012 - $1,709,508) that is restricted for the payment of a contractor holdback.

6. Accounts receivable

	2013	2012
Wholesale energy sales	$ 5,401	$ 6,399
Retail energy sales	1,869	2,014
Other	1,011	1,961
Green Infrastructure funding (note 14)	-	2,130
	$ 8,281	$ 12,504

Included in Accounts Receivable is an amount equal to $453,000 (2012 - $1,172,000) representing management's best estimate of the additional ERA revenues receivable based on interpretation of prior YUB direction and discussions with the Utility's wholesale customer. This revenue has been deferred by Order of YUB. See Note 4 for further explanation.

7. Direct financing lease

The Corporation's investments in direct financing leases are summarized as follows:

	2013	2012
Direct financing leases	$ 162	$ 162
Less: current portion	-	-
	$ 162	$ 162

In 2003, the Corporation financed an electric boiler system for the Yukon Hospital Corporation at a cost of $595,898. The repayment terms on this lease stipulate that one half of the energy cost savings resulting from the boiler usage during the year will be repaid against the investment. Interest on this investment is earned at the rate of 7.5% per annum and recognized as finance income. The investment balance was $162,090 in 2013 (2012 - $162,090).

8. Property, plant and equipment

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
Generation	$ 288,461	$ 67,344	$ 221,117	$ 223,170
Transmission	141,876	22,031	119,845	120,477
Buildings and other equipment	23,313	9,921	13,392	13,645
Distribution	29,469	12,216	17,253	18,242
Construction-in-progress	24,137	-	24,137	3,325
Transportation	4,338	1,452	2,886	2,847
Financial information system	1,303	1,303	-	-
Land and land rights	1,109	-	1,109	1,111
	$ 514,006	**$ 114,267**	$ 399,739	$ 382,817

9. Deferred uninsured losses

	2013	2012
Balance, beginning of year	$ 152	$ 576
Provision	(226)	(226)
Transfer from Faro mine dewatering deferral revenue	-	(397)
Losses incurred - Asset replacement	404	199
Balance, end of year	**$ 330**	$ 152

In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2013-01 to transfer the balance of $397,000 in the Faro mine dewatering deferral revenue account as at January 1, 2012 to Deferred uninsured losses and to amortize the remaining negative balance in the account of $180,000 over a five-year period. In addition, the Utility was directed by YUB Order 2013-01 to record an annual provision of $190,000 in 2012 and each subsequent year.

10. Deferred charges and intangible assets

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
Intangible assets:				
Deferred licensing costs	$ 12,025	$ 7,310	$ 4,715	$ 5,847
Deferred charges:				
Feasibility studies and infrastructure planning	20,311	3,830	16,481	17,413
IFRS planning	566	226	340	468
Hearing costs	4,946	2,224	2,722	2,950
Deferred customer service costs	769	326	443	507
Dam safety review	332	284	48	72
Deferred financing costs	110	99	11	22
	$ 39,059	**$ 14,299**	**$ 24,760**	$ 27,279

11. Accounts payable and accrued liabilities

	2013	2012
Trade payables	$ 11,486	$ 14,856
Other	493	1,538
Employee compensation	358	336
	$ 12,337	$ 16,730

Included in Other accounts payable is an amount equal to $453,000 (2012 - $1,172,000) representing management's best estimate of the additional ERA revenues receivable based on interpretation of prior YUB direction and discussions with the Utility's wholesale customer. This revenue has been deferred by Order of YUB. See note 4 for further explanation.

12. Construction financing

Construction financing are monies advanced from the Yukon Government to the Corporation to fund the construction of the Utility's Liquid Natural Gas project. The amount is repayable on March 31, 2015. Interest is payable annually at March 31 and at the maturity date. The interest rate is 1.68%. Subsequent to year end, the Corporation received an additional $6,000,000 to fund the construction of the project on the same terms and conditions.

13. Future removal and site restoration costs

	2013	2012
Regulatory provision	$ 4,671	$ 4,711
Provision for decommissioning of Minto spur line	2,553	2,522
	$ 7,224	$ 7,233

14. Contributions in aid of construction

	Cost	Accumulated Amortization	2013 Net Book Value	2012 Net Book Value
Contributions from Canada (note 6)	$ 71,000	$ 2,057	$ 68,943	$ 69,934
Contributions from customers since 1998	23,417	6,421	16,996	17,849
Government of Yukon contributions	17,959	2,538	15,421	15,764
Pre - 1998 contributions	1,739	1,205	534	577
Deferred insurance proceeds	11,122	5,398	5,724	5,972
	$ 125,237	**$ 17,619**	**$ 107,618**	$ 110,096

The sources of contributions received prior to 1998 were not recorded separately.

15. Regulatory hearing reserve

	2013	2012
Balance, beginning of year	$ -	$ -
Regulatory provision	550	550
Costs	(444)	(550)
Balance, end of year	**$ 106**	$ -

The regulatory provision is included in amortization of deferred charges on the statement of operations, comprehensive income and retained earnings.

16. Diesel contingency fund

	2013	2012
Balance, beginning of year	$ 4,628	$ 902
Transfers (note 4)	3,518	3,716
Interest	52	10
Balance, end of year	**$ 8,198**	$ 4,628

17. Long-term debt

The Corporation's long-term debt is summarized as follows:

	2013	2012
Bond The Corporation issued a bond at a fixed interest rate of 5.0% per annum. Interest is payable semi-annually. Principal payment is due when the bond expires on June 29, 2040.	$ 98,257	$ 98,226
The Toronto Dominion Bank The Corporation entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.92% per annum. Principal drawdowns are monthly with the balance due on December 27, 2017.	7,662	9,443
The Toronto Dominion Bank The Corporation entered into an interest rate swaps to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 4.82% per annum. Principal drawdowns are quarterly with the balance due on March 30, 2017.	3,543	4,556
The Toronto Dominion Bank The Utility entered into an interest rate swap to convert the interest rate on the Bankers' Acceptances amounts from a variable interest rate based on the Bankers' Acceptances rates to a fixed rate of 2.69% per annum. Principal drawdowns are monthly with the balance due on December 28, 2022.	10,687	11,000
TD Canada Trust $12,400,000 term note bearing interest at 4.02% payable in monthly installments of $94,406 interest and principal, with the balance due September 30, 2016. The note is guaranteed by the Yukon Government. The terms of the note were renewed October 3, 2011.	2,946	3,939
Tr'ondek Hwech'in First Nation loan The loan from the First Nation is related to the construction of the Mayo Dawson Transmission Line and is repayable in equal annual principal repayments of $125,000 with the final payment due in 2049. The interest rate at 6.56% is a blended rate based on the cost of debt and the actual rate of return earned by the Utility.	4,625	4,625
Carmacks Stewart First Nation liability Long-term liability payable to several First Nations related to the construction of the Carmacks Stewart Transmission Line. These are non interest bearing repayable in varying instalments, due in 2028.	311	341
Total	**$ 128,031**	$ 132,130

17. Long-term debt - continued

The Corporation's long-term debt is summarized as follows:

	2013	2012
Total - balance forward	**$ 128,031**	$ 132,130
Less current portion	4,521	4,260
	$ 123,510	$ 127,870

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2014	$ 4,521
2015	4,547
2016	4,411
2017	2,776
2018	519
Thereafter	111,257
	$ 128,031

Fair value

Fair value at December 31, 2013 of $139 million (2012 - $156 million) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

Bond

The Corporation issued a bond in 2010 for the face value of $100 million. The interest rate is 5% and the bond matures June 29, 2040. There are no principal payments due until the bond matures and interest is payable semi annually. The bond was issued at a discount of $0.7 million which will be amortized over the period of the related debt using the effective interest rate. Transaction costs were $1.2 million and includes fees paid to agents and advisors and are presented as a reduction from the carrying value of the related debt and are amortized over the period of the related debt using the effective interest rate.

Na-Cho Nyak Dun First Nation loan

Subsequent to the year end, the Corporation received a $3,500,000 loan from a First Nation which is related to the construction of the Utility's Mayo B project. The Corporation is required to make annual principal and interest payments based on the terms of the lending agreement. The interest rate is based on the actual rate of return earned by the Utility.

18. Sales of power

	2013	2012
Wholesale	$ 28,353	$ 26,408
Industrial	4,484	4,716
General service	3,668	3,527
Residential	1,697	1,601
Secondary sales	275	165
Sentinal and street lights	94	91
	$ 38,571	$ 36,508

19. Administration expenses

	2013	2012
Wages and benefits	$ 5,576	$ 5,179
General office	1,442	1,593
Insurance and taxes	1,333	1,205
Information systems	700	646
Regulatory loss	658	1,377
Environmental	448	536
Training, recruitment and development	290	344
Board of Directors	189	119
Material management and contracting	70	157
	$ 10,706	$ 11,156

20. Operations and maintenance expenses

	2013	2012
Wages and benefits	$ 5,302	$ 4,765
Maintenance		
- lines and substations	1,656	1,620
- hydro, diesel and wind	1,306	1,177
- building and vehicle	1,135	1,020
Fuel and purchased power	360	827
Water level measurement	224	237
	$ 9,983	$ 9,646

21. Related party transactions

The Corporation is related in terms of common ownership to all Government of Yukon (YG) departments, agencies and Crown Corporations. Transactions with these entities are entered into in the normal course of operations. All transactions with the Utility are recorded at rates set out by the YUB.

The following table summarizes the related party transactions for the year:

	2013	2012
Construction financing from YG	$ 12,000	$ -
Contributions from YG for Interim Electrical Rebate program	3,440	3,050
Contributions from YG for Bond interest expense	2,625	2,625
Account receivable YG	402	562
Program cost reimbursement from YG	100	100
Account payable YG	23	183

22. Pension costs and obligations

An actuarial valuation for funding purposes of the employee defined benefit plan was performed as of January 1, 2013. The next valuation for funding purposes will be conducted as of January 1, 2014. An actuarial valuation for funding purposes of the executive employee defined benefit plan and supplemental executive retirement plan was performed as of January 1, 2011. The next valuation for funding purposes will be conducted as of January 1, 2014. The pension costs and obligations were based on the data used in these funding valuations and have been projected to December 31, 2013 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by the plans' custodians as at December 31, 2013. The distribution of assets by major asset class is as follows: equities - 53.1% (2012 - 47.3%), fixed income securities - 36.1% (2012 - 41.3%); and real estate - 10.8% (2012 - 11.4%).

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

	2013	2012
Accrued benefit obligation determined by actuarial valuation	$ 17,953	$ 17,490
Fair value of plan assets	13,284	11,174
Funded status - plan deficit	$ 4,669	$ 6,316
Unrecognized amounts:		
- Transitional asset (liability)	(73)	(132)
- Net accumulated actuarial losses	(3,436)	(5,137)
Accrued benefit liability	$ 1,160	$ 1,047
Pension costs	$ 1,175	$ 771
Employer contributions	$ 1,061	$ 863
Employee contributions	$ 108	$ 119
Benefits paid	$ 536	$ 183

22. Pension costs and obligations - continued

Significant assumptions for employee defined benefit plan:		
Discount rate - accrued benefit obligation	4.75%	4.50%
Discount rate - pension costs	4.50%	5.25%
Expected long-term rate of return on plan assets	6.25%	6.25%
Assumed rate of salary escalation	3.00%	3.00%
Significant assumptions for executive pension plans:		
Discount rate - accrued benefit obligation	4.75%	4.25%
Discount rate - pension costs	4.25%	5.25%
Expected long term rate of return on plan assets	5.50%	5.50%
Assumed rate of salary escalation	3.50%	3.50%

The accrued benefit liability has been recorded by the Utility and is separately shown on the balance sheet.

Employees joining after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and to employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2013 these were $353,000 (2012 - $285,000).

Total cash payments for employee future benefits for 2013, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were $1,414,000 (2012 - $1,148,000).

23. Commitments

Aishihik water license
The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by the Federal Government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water license costs in the year they are paid.

Contractual obligations
The Utility has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31, 2013 as the product or service had not been provided. The commitment at year end is $6,730,000 (2012 - $6,429,000).

24. Contingencies

Carmacks to Stewart Crossing Transmission Project
The Utility completed the construction of the Carmacks to Stewart Crossing Transmission Line project during 2011. In April 2011, the line construction contractor notified the Utility of a potential claim under the contract alleging increased costs of $3,000,000 due to scheduling delays and change in scope caused by the Utility. The outcome of the potential claim is not determinable at this time and no amount has been recognized in the financial statements.

24. Contingencies - continued

Aishihik Third Turbine Project
This project was commissioned into service in December 2011. On March 2, 2012, the general contractor filed a claim with the Supreme Court of Yukon for $4,000,000 plus interest and costs alleging the Utility has not paid for work performed. The Utility has informed the contractor of claims for incomplete contract scope, uncorrected deficiencies and other claims. The outcome of the claim is not determinable at this time and no amount has been recognized in the financial statements.

25. Environmental liabilities

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

The Utility has conducted environmental assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation. As at December 31, 2013 no environmental liabilities, for which a legal obligation exists to remediate, has been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

26. Risk management and financial instruments

At December 31, 2013, the Corporation's financial instruments included cash, accounts receivable, short-term and long-term receivable, accounts payable and accrued liabilities, construction financing, long term debt and interest rate swaps.

The fair value of cash, accounts receivable, accounts payable and accrued liabilities and construction financing approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in Note 17.

The Corporation has access to a $17.5 million line of credit. The account accrues interest on withdrawals at prime rate minus 0.25% per annum.

Interest rate swaps are financial contracts that derive their value from changes in an underlying variable. The interest rate swaps are designated as held for trading and are thus recognized at their fair value on the date the contract has been entered into with any subsequent unrealized gains and losses reported in net income during the period in which the fair value movement occurred. The fair value of the interest rate swaps is estimated using standard market valuation techniques and is provided to the Corporation by the financial institution that is the counterparty to the transactions. The Corporation did not engage in any other hedging transactions.

Interest rate risk
Interest rate risk is the risk that future cash flows or the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Corporation is not exposed to significant interest risk due to its long-term debt having fixed interest rates, with the exception of the Bankers' Acceptances from TD Bank whose variable rate has been converted to a fixed rate using interest rate swaps.

26. Risk management and financial instruments - continued

As at December 31, 2013, the Corporation had three interest rate swap agreements in place with notional principal amounts of $16 million, $11 million and $8 million. The agreements effectively change the Corporation's interest rate exposure on these notional amounts from floating rates to fixed rates of 2.92%, 2.69% and 4.82% respectively.

The fair value of the interest rate swap agreements at December 31, 2013 was an asset of $120,000. (2012 - $666,000 liability). The interest rate swap agreements cover the notional debt amounts until 2017 at the fixed interest rates noted above. Fair values for interest rate swaps are provided by the financial institution with whom the swaps are held. A 100 basis point increase/decrease in the interest rate assumption would have resulted in an increase/decrease in the interest swap agreements' fair value of $934,000 and $940,000 respectively at December 31, 2013 (2012 - $1,157,000 and $1,168,000 respectively). During the year the Corporation paid $6.188 million of interest. (2012 - $6.047 million)

Credit risk

Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Corporation. Financial assets, which potentially subject the Corporation to concentrations of credit risk consist principally of cash, accounts receivable and long-term receivable. The maximum credit risk at December 31, 2013 is the fair value of these assets which totals $17.301 million (2012 - $22.356 million).

The credit risk related to cash is minimized as these assets are held with a Canadian chartered bank.

Accounts receivable are considered for impairment when they are past due or when objective evidence is received that a customer will default. Management has assessed that the credit risk for accounts receivable is minimal since its primary customer which makes up 65.2% (2012 - 51.2%) of the accounts receivable at December 31, 2013, is a regulated utility which has had a history of positive cash flow. Consistent with prior years there were no balances owing that are older than 90 days and thus the Corporation did not recognize an allowance for doubtful accounts. There is also no history of impairment.

In order to minimize the credit risk on the long-term receivable, management obtained the security of assets for the loan and reviews the recoverable amount at each balance sheet date to ensure that adequate impairment losses are made for unrecoverable amounts. Management has considered the customer's credit worthiness by analysis of the entity's financial statements as at December 31, 2013. Based on this analysis, management expected to collect the amount of the loan in its entirety.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation through active management of the assets and liabilities and cash flows. The carrying amount of accounts payable and accrued liabilities, construction financing and long term debt represents the maximum exposure to liquidity risk. At December 31, 2013, the Corporation's accounts payable and accrued liabilities had a carrying value of $12.3 million (2012 - $16.7 million).

At December 31, 2013, the Corporation's long term debt had a carrying value of $128.0 million (2012 - $132.13 million) and $2.946 million is due in 2016 (2012 - $3.939 million), $11.205 million is due in 2017 (2012 - $13.999 million), $10.687 million is due in 2022 (2012 - $11 million), $0.311 million due in 2028 (2012 - $0.341 million), $98.257 million due in 2040 (2012 - $98.226 million) and $4.6 million is due in 2049 (2012 - $4.625 million).

The Corporation had $17.5 million (2012 - $17.5 million) in undrawn credit facilities at its disposal to further reduce liquidity risk.

26. Risk management and financial instruments - continued

Fair values

The following table illustrates the fair value hierarchy of the Corporation's financial instruments as at December 31, 2013:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Derivative related asset	-	$ 120	-	$ 120

The fair value of the derivative related liability in 2012 was $666,000 and was classified as level 2.

27. Capital management

The Corporation's and the Utility's capital is their equity which is comprised of share capital and accumulated funds in the form of retained earnings. The Corporation and the Utility manage their equity by managing revenues, expenses, assets and liabilities to ensure their objectives are effectively achieved while remaining a going concern.

Corporation's and Utility's Capital Management Policy

The Corporation's policy is to minimize debt from operations to the maximum extent possible with available cash flows without impairing the working capital needs of the Corporation. The Corporation has no set debt to capital target, nor are there any loan agreements which impose any capital requirements on the Corporation.

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings which is comprised of long-term debt, including the portion of long-term debt due within one year. Short term debt related to assets under construction at the balance sheet date is excluded from the calculation of total debt, as the assets are similarly excluded from the determination of rate base. In addition the provision for decommissioning of the Minto Mine spur line has been added (note 13). Total capitalization is calculated as total debt plus total shareholder's equity as shown on the balance sheet. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

The Utility has a policy which defines its capital structure at a ratio of 60% debt and 40% equity. This policy has been reviewed and accepted by the YUB.

The table below summarizes the Utility's total debt to total capitalization position:

(thousands of dollars)	2013	2012
Long-term debt due within one year	$ 5,406	$ 5,356
Long-term debt	125,906	125,841
Total debt	131,312	131,197
Add provision for decommissioning of Minto Mine spur line	2,553	2,522
Total debt to include in the calculation	$ 133,865	$ 133,719

27. Capital management - continued

(thousands of dollars)	2013	2012
Share capital	$ 39,000	$ 39,000
Contributed surplus	14,600	14,600
Retained earnings	35,437	35,044
Total equity	89,037	88,644
Total capitalization	$ 222,902	$ 222,363
Total debt to total capitalization	60 %	60 %

There were no changes in the Corporation's or the Utility's approach to capital management during the period.

28. Non-consolidated financial information

The nature and size of operations of the Corporation and its wholly-owned subsidiary, Yukon Energy Corporation differ substantially. Audited financial statements of the Yukon Energy Corporation for the year ended December 31, 2013 are also prepared.

29. Comparative figures

Certain 2012 figures, have been reclassified to conform with the current year's presentation.